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July 28, 2005

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SUBJECT: AUDIT OF RISK MANAGEMENT'S CLAIMS PROCESSING OF LIABILITY AND WORKERS' COMPENSATION CLAIMS

Introductory Remarks

In compliance with the Memorandum of Understanding (MOU), dated August 23, 1991, we have completed a periodic review of controls over claims processing of Liability and Workers' Compensation claims, in accordance with the standards developed by the Institute of Internal Auditors.

Scope of Audit

The purpose of this audit is to determine if control activities used by Risk Management to process Liability and Workers' Compensation claims payments by electronic data interface with the County's Financial Accounting System (FAS) are adequate to allow the Auditor/Controller-Recorder's Controller Division to process those claims payments without supporting documentation. Our review was limited to the system of internal controls and procedures related to Liability and Workers' Compensation claims payments for the period January 1, 2004 through June 30, 2004. We tested thirty Liability and thirty Workers' Compensation claims for compliance with department policies, procedures, and the Memorandum of Understanding dated August 23, 1991.

Results of Audit

The audit was discussed with Risk Management at an exit conference on August 16, 2005. A draft report was subsequently sent to Risk Management on August 16, 2005. Responses to the recommendations received on August 31, 2005 are included in the report.

In our opinion, the internal controls over the Liability and Workers' Compensation claims payments are adequate, except for conditions we noted that require management's attention. However, our study and evaluation of the system of internal controls would not necessarily disclose all material weaknesses in the system. The conditions noted that require management's attention are discussed under the Current Year's Findings and Recommendations Section below.

STATUS OF PRIOR YEAR'S FINDINGS AND RECOMMENDATIONS

The recommendations contained in the prior audit report dated May 23, 2005 relating to findings number 1 and 4 were adopted. The followings are the prior year's findings that still occurred in the audit period of 1/1/04 to 6/30/04.

Finding 1: Prior year finding #2

Discrepancies identified between the accounting systems during the reconciliation process were not resolved.

Prior Recommendations

Prepare written operating procedures to direct and document the reconciliation process. Re-format the completed reconciliation report to include, at a minimum, the date prepared, preparer, and reviewer. Designate an employee, not involved in the preparation, to review and sign the agency's monthly reconciliation and to monitor completion of follow-up adjustments. Provide training to all staff involved.

Current Status

Reconciliations for fiscal year 2004 were performed after the fiscal year closed, making the reconciliation process more difficult and time consuming. A Request for Transfer (JVRT) to correct fund balances was coded incorrectly and recorded in fiscal year 2004. Since reconciliations were not performed or reviewed in a timely manner, the error went undiscovered and uncorrected until fiscal year 2006. As a result, fund balances were misstated for fiscal year 2004, providing inaccurate information for the budgeting and rate processes. The reconciliations were reviewed and approved in July 2005.

Finding 1: Prior year finding #2 - Continued

Further Recommendation

Remind staff the importance of performing reconciliations in a timely manner. Monthly reviews and approvals of reconciliations should be performed promptly to ensure that the reconciliation process functioning as intended. Provide training to all staff involved.

Auditee's Response:

Written operating procedures exist. The Fiscal Section staff is aware of the need to complete each reconciliation on a monthly basis, and to gather and attach all backup documentation. The preparer will initial and date each month's reconciliation. The Accounting Technician (and the Accountant I as backup) will be in charge of reviewing, signing off, and making sure each monthly reconciliation is done in a timely manner (within 30 days of receipt of the FAS report).

Finding 2. Prior year finding #3

The procedures for coding reconciliation adjustments were not consistently followed.

Prior Recommendations

Reiterate to staff the need to follow established guidelines for coding transactions to reflect corresponding adjustments in FAS. Conduct and document periodic supervisory reviews of work performed.

Current Status

Two of the five stop payment transactions tested were coded incorrectly. The coding errors were due to misunderstanding of the standard practice by the staff. The department updated its warrant cancellation, stop payment, and stale dated warrant procedures in July 2005 to clarify the definitions in the standard practice.

Further Recommendation

Fully comply with prior recommendations. Provide training to help staff understand the definitions in the standard practice.

Finding 2. Prior year finding #3 - Continued

Auditee's Response:

The procedures for warrant cancellations, stop payments and stale dated warrants were revised as a result of the previous audit and now reflect a clear definition for each of them. This will allow the Fiscal Assistant to adequately prepare and enter the corresponding adjustments in the Claims Processing System.

Finding 3. Prior year finding #5

Vital liability claim documents could not be located.

Prior Recommendations

Establish a process for ensuring that all documentation necessary to establish approval of payments is received and filed. Remind staff to ensure documents have been physically received and placed in the files before completing the related checklist item.

Current Status

Executed settlement release forms or agreements were not present in two of thirty case files examined. Additionally, evidence of both a required supervising override for a payment of \$170, 000 and the cancellation of that payment were missing because the document could not be located in the file.

Further Recommendation

Review checklist procedures with staff to ensure that they are applied consistently and in a timely manner. Furthermore, emphasize the importance of executed release agreements. Consider implementing more frequent quality reviews of closed claims.


Auditee's Response:

A Liability Section staff meeting was held at the end of the audit to remind staff of the importance of all supporting payment documentation being placed in the claim files. The claim file closure checklist will be reviewed to determine whether it requires any modifications to enhance its usefulness. Also, staff will be directed to use the checklist upon closure of any file. Additionally, a member of the staff has been assigned to review all closed files for settlements exceeding \$50,000 to ensure supporting documentation is on file.

We wish to thank the management and staff of Risk Management for their assistance and cooperation throughout the audit.

Respectfully submitted,

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By: 
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